"OPERATION SUDDEN IMPAC"

INVESTIGATION OF FRAUDULENT ABUSES OF THE GOVERNMENT PURCHASE CARD PROGRAM

WASHINGTON METRO FRAUD RESIDENT AGENCY
US ARMY CRIMINAL INVESTIGATION COMMAND

INVESTIGATIVE BACKGROUND

During a routine review of a Government Purchase Card (GPC) cardholder account, an Approving/Billing Official noticed suspicious purchasing habits of a particular employee.

Employee subsequently confessed to fraudulent collusion with GPC vendor, resulting in $19,000.00 loss to Government.

METHOD OF OPERATION

- Cardholders knowingly pay inflated prices for merchandise
- Large fraudulent transactions broken up and disguised as “split purchases”
- Vendors provide merchandise, services, gifts and/or portion of profit as a reward/incentive for purchase (kickbacks)

METHOD OF OPERATION (continued)

- Bogus companies are established and co-owned by cardholders and vendors
- Solicitation/direction of other cardholders to use bogus companies known for kickbacks
- No product shipment, but invoices paid
- Falsified documents/invoices created and placed in files to cover audit trail

METHOD OF OPERATION

(Specific Example)

ABC Office Products/123 Office Products (same company, different names)

- $665,000.00 suspected fraudulent GPC sales
- **All** business generated from (3) Active Duty military cardholders within the same unit
- Military member/cardholder established bogus companies with friend (non-DoD entity)
- Solicited other cardholders to utilize company (kickbacks)
- No product shipment, but invoices paid
- All funds split between complicit parties

CRIMINAL OFFENSES INVOLVED

- **18 USC 1956 MONEY LAUNDERING**
- **31 USC 5324 TRANSACTION STRUCTURING**
- **18 USC 1341 MAIL FRAUD**
- **18 USC 1343 WIRE FRAUD**

- 18 USC 286 CONSPIRACY
- 18 USC 208 CONFLICT OF INTEREST
- 18 USC 654 CONVERSION OF GOV'T FUNDS
- 18 USC 1001 FALSE STATEMENTS
- 18 USC 287 FALSE CLAIMS

MONETARY LOSS

Actual dollar loss covered by this investigation is still unknown, but is estimated at well over several million dollars.

So far, average provable loss per each of the subjects already prosecuted, is approximately $200,000.00.

AFFECTED ACTIVITIES

Subjects have been identified in several US Army/Joint Chiefs of Staff activities/offices including:

- Assistant Secretary of the Army for Financial Management & Comptroller (ASA FM&C)
- Supply Services-Office of the Joint Chiefs of Staff (JCS-Supply)
- Assistant Secretary of the Army Acquisition, Logistics & Technology (SAALT)
- Army Acquisition Executive Support Agency
- Headquarters, Dept. of the Army, Logistic Support Division

PROSECUTION PENALTIES

Subject No. 1
(GPC Vendor)
- $35,000.00 restitution
- **23 years confinement**

Subject No. 2
(DA Employee/co-owner GPC Vendor)
- $97,000.00 restitution
- 24 months confinement

Subject No. 3
(GPC Vendor +)
- $72,000.00 restitution
- House Arrest
- 3 years probation

Subject No. 4
(Active Duty Cardholder)
- $70,000.00 restitution
- House Arrest
- 2 years probation

Subject No. 5
(Active/Ret. Cardholder)
- $120,000.00 restitution
- 1 year + 1 day confinement

Subject No. 7
(co-owner, GPC Vendor)
- $400,000.00 restitution
- 27 months confinement

SYSTEMIC PROGRAM WEAKNESSES

- Use of purchase cards by other than the account holder
- Use of purchase cards for other than designated purpose (i.e. office supplies, carpet, etc…)
- Lack of standardized internal controls

SYSTEMIC PROGRAM WEAKNESSES (continued)

- Lack of independent, routine oversight by audit or compliance inspection
- Lack of routine oversight by Approving Officials (monthly reconciliation)

RECOMMENDED CORRECTIVE ACTION

MUST begin with Approving Officials

- Ensure completion of monthly cardholder statement reconciliation
- Additional cardholder/Approving Official ethics training is required
- Reduce span of control per Approving Official (too many cards per AO in some instances, not enough time)

RECOMMENDED CORRECTIVE ACTION (continued)

- Establish centralized inventory controls that reconcile requisition, receipt and issue of property
- Establish requirement for routine unannounced compliance inspection/audit of accounts by Internal Review, Inspector General or Army Audit Agency

CORRECTIVE ACTIONS TAKEN

- Acting Asst. SecArmy (Acquisition, Logistics and Technology (ASAALT) formed Army Fraud Task Force to review fraudulent use of the GPC
- Members consisted of representatives from: Financial Mgmt, Procurement, Logistics, JAG, Internal Review, AAA and DSS-W
- GPC Program policy and procedure weaknesses identified & findings reported

GPC FRAUD DETECTION AND DETERRENCE

GPC FRAUD DETECTION & DETERRENCE

- Most importantly, we have to <u>actively look</u> for occurrences of fraud

  (Subjects admitted they were successful because they felt no one was watching)
- Depends greatly on in-depth oversight reviews of Approving/Billing Officials actions

  (regular audits are a proven deterrent to fraudulent activities)

HOW CAN YOU HELP?

- Learn the indicators of GPC fraud and look for them during routine compliance reviews
- Incorporate indicators into current operational checklists
- Conduct unannounced intermittent spot checks of AO/BO GPC accounts
- Promptly report suspicious transactions, violators to appropriate parties

WHAT ARE THE INDICATORS OF GPC FRAUD?

INDICATORS OF GPC FRAUD

- Cardholder accounts with incomplete records available for review/inspection
- Cardholder accounts with numerous disputes
- Cardholder accounts with several limit increases over a short period of time
- Frequently delinquent cardholder accounts

INDICATORS OF GPC FRAUD (cont'd)

- Regularly recurring split purchases, often to the same vendor
- Purchases outside normal purchase pattern of cardholder (possibly made by others)
- Recurring purchases from relatively unknown sources/vendors
- Purchased items not annotated on property books

INDICATORS OF GPC FRAUD (cont'd)

- Similar invoices from different vendors (software generated)
- Cardholder preference of particular vendor(s) (minimal rotation)
- Questionable purchases of consumable items (accountability subversion)
- Subversion of current Management Controls (by cardholder and/or AO/BO)

INDICATORS OF GPC FRAUD (cont'd)

- Indications that AO/BO isn't conducting monthly reconciliation of cardholder accts.
- Overly documented cardholder files (fresh new documents and signatures)
- Recurring purchases of high value items (profit generation for kickbacks)
- Lack of inventory controls or failure to adhere to existing controls (accountability)

RECOMMENDED MANAGEMENT CONTROLS FOR THE GPC PROGRAM

Management Controls

KEY TO SUCCESSFUL DETECTION

- Army Supervisors/Commanders must effectively enforce existing Management Controls and hold Approving/Billing Officials responsible for their actions

  (Consider implementation of additional controls to address systemic weaknesses)

Management Controls Recommended

- Requirement for Contracting Offices to perform oversight reviews on AO/BO ensuring adherence to established policy and procedures (Special emphasis placed on high dollar threshold accounts)
- Develop Army Directives consolidating all GPC procedures and policies Army-wide

Management Controls Recommended

- Requirement for significant purchases to be pre-approved, prior to acquisition
- Guidelines for local Agency/Organization Program Coordinators to provide assistance to local activity (IR/AAA/IG) performing oversight review (utilizing ad hoc query capability)

Management Controls Recommended

- AO/BO requirement to provide Chief of Contracting/PARC with an annual report detailing conduct of monthly reconciliation and findings
- Mandate requiring activities/agencies to develop and produce internal management controls for inspection by reviewing activity

Management Controls Recommended

- Training of oversight/inspection personnel emphasizing Management Controls
- Sensitivity to split purchases emphasized during GPC fraud detection training
- Mandate requiring and ensuring accountable property purchased is placed on purchasing activity/agency Property Books

Management Controls Recommended

- Develop an Army directive that will indicate useful tools in determining if a company is viable and responsible (reducing loss to illegitimate vendors)
- Activities/Commands require AO/BO to certify a statement closing account before leaving the organization. Certifying that account is in good standing at time of out-processing

Management Controls Recommended

- Establish a central repository to capture GPC findings from all sources (CID, IR, AAA, IG) at one level
- Highly recommend this repository be established and maintained by the Army Agency/Organization Program Coordinator, Purchase Card Joint Program Office, who already serves as the Army's proponent for GPC matters and concerns

SUMMARY

We can and will effectively deter and detect GPC and other types of fraud within the Army and throughout DoD once we combine forces, develop a strategy, and work more efficiently.

Army Readiness
Logistics Security
Soldier Safety
Defending Soldier's Interest

QUESTIONS ?

POINT OF CONTACT

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